

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2007

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### III. Detailed Notes On All Funds

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#### I. Short-term Obligations

Short-term obligations at June 30, 2007, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/06 Beginning Balance	Additions	Deletions	6/30/07 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 200,000	\$ 200,000	\$ 0
Accrued receivables:				
State Building Fund	0	38,333	38,333	0
Children's Initiatives Fund	0	23,311	23,311	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,216	21,216	0
Kansas Endowment for Youth Fund	0	200	200	0
27 <sup>th</sup> Paycheck	0	27,556	27,556	0
Bond Anticipation Notes:				
KDFA Series 2007-1, 5.80%	0	3,000	0	3,000
 Total short-term obligations	 \$ 0	 \$ 317,610	 \$ 314,610	 \$ 3,000

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$200 million was issued on December 14, 2006 and redeemed on June 30, 2007.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2007, \$25.5 million was posted to the Kansas Educational Building Fund and \$12.8 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2007.

Per Senate Bill 480, Section 76(g) of the 2006 Session, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2007 a receivable was posted for \$23.3 million and was reduced to zero in April 2007.

Per Senate Bill 480, Section 76(i) of the 2006 Session, on July 1, 2006, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2007, a receivable was posted for \$4 million and was reduced to zero in March, 2007.

Per Senate Bill 480, Section 76(h) of the 2006 Session, on July 1, 2006, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2007, a receivable was posted for \$21.2 million and was reduced to zero in December 2006.

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Per Senate Bill 480, Section 76(j) of the 2006 Session, on July 1, 2006, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 80 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2007, a receivable was posted for \$.2 million and was reduced to zero in March 2007.

Per Senate Bill 480, Section 76(p), on July 1, 2006, receivables are to be posted to the State Treasurer's receivables for the 27<sup>th</sup> Payroll in the amount of \$27.6 million. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2007, a receivable was posted for \$27.6 million and was reduced to zero in June 2007.

The Kansas Development Finance Authority is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the KDFA has authorized the issuance of notes in anticipation of revenue bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

The \$3 million KDFA Bond Anticipation Note, Series 2007-1, was issued to fund a capital improvement project for the Kansas Army National Guard Armory. The loan was provided by the Pooled Money Investment Board for a term of 365 days (due February 1, 2008) at an interest rate of 5.80%.

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#### J. Long-term Obligations

A summary of long-term obligations at June 30, 2007, for the fiscal year then ended is as follows (expressed in thousands):

	Government Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 2,740,099	\$ 714,857	\$ 684,398	\$ 4,139,354
Sales tax limited obligation bonds	218,420	0	0	218,420
Notes payable	18,278	0	120,443	138,721
Capital leases payable	145,366	0	16,143	161,509
Arbitrage rebate payable	97	1,340	69	1,506
Claims and judgements	61,593	180,801	0	242,394
Compensated absences	118,796	59	52,503	171,358
Other	0	13,730	127,836	141,566
Total long-term obligations	\$ 3,302,649	\$ 910,787	\$ 1,001,392	\$ 5,214,828

Long-term obligations at June 30, 2007, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/06 Beginning Balance	Additions	Deletions	6/30/07 Ending Balance	Amounts Due In One Year
<b>Governmental Activities</b>									
<u>Revenue bonds payable:</u>									
KDFA Series 1998 V	1999	4.25 – 5.00%	2008	\$ 11,195	\$ 2,940	\$ 0	\$ 1,435	\$ 1,505	\$ 1,505
KDFA Series 1999 E	1999	4.00 – 5.00%	2009	34,470	11,710	0	3,745	7,965	3,900
KDFA Series 2001 M	2002	3.50 – 5.00%	2011	32,390	18,840	0	3,435	15,405	3,575
KDFA Series 2003 H	2004	1.41 – 5.21%	2014	40,250	33,325	0	3,585	29,740	3,710
KDFA Series 2004 A	2004	2.00 – 5.00%	2024	44,920	41,845	0	1,640	40,205	1,680
KDFA Series 2004 C	2004	3.43 – 5.50%	2034	500,000	500,000	0	0	500,000	0
KDFA Series 2004 G-1 & G-2	2005	2.50 – 5.13%	2024	1,545	1,115	0	265	850	270
KDFA Series 2005 H	2006	3.25 – 5.00%	2032	88,175	87,795	0	2,915	84,880	3,010
KDFA Series 2005 N	2006	3.50 – 4.00%	2015	28,165	25,260	0	2,420	22,840	2,500
KDFA Series 2006 A	2006	4.00 – 5.00%	2027	209,490	209,490	0	0	209,490	6,735
KDFA Series 2006 L	2007	4.00 – 4.25%	2026	8,995	0	8,995	0	8,995	465
KDFA Series 2007 F	2007	4.00 – 4.97%	2017	34,505	0	34,505	0	34,505	2,590
KDOT Series 1993 A	1993	2.65 – 5.63%	2008	147,405	19,080	0	11,920	7,160	7,160
KDOT Series 1998	1998	3.65 – 5.50%	2015	189,195	90,850	0	15,845	75,005	16,740
KDOT Series 2000 B & C	2001	4.50 – 5.85%	2021	200,000	200,000	0	0	200,000	0
KDOT Series 2002 A	2003	Variable	2012	199,600	128,725	0	25,255	103,470	26,430
KDOT Series 2002 B & C	2003	3.39%	2020	320,005	320,005	0	0	320,005	0
KDOT Series 2002 D	2003	Variable	2012	88,110	88,110	0	0	88,110	0
KDOT Series 2003 A & B	2004	3.13 – 5.00%	2014	248,190	248,190	0	0	248,190	0
KDOT Series 2003 C	2004	3.36%	2016	150,275	150,275	0	0	150,275	0
KDOT Series 2004 A	2004	4.50 – 5.50%	2023	250,000	250,000	0	0	250,000	0
KDOT Series 2004 B	2005	Variable	2025	200,000	200,000	0	0	200,000	0
KDOT Series 2004 C	2005	Variable	2025	147,000	147,000	0	0	147,000	0
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	43,955	1,789	5,946	39,798	0
Unamortized deferred refunding difference				0	(53,561)	0	(8,267)	(45,294)	0
Total revenue bonds payable				3,173,880	2,764,949	45,289	70,139	2,740,099	80,270
<u>Sales tax limited obligation bonds:</u>									
1999 KISC	1999	4.20 – 5.25%	2027	17,496	17,496	0	182	17,314	197
2001 Project Area B	2001	4.00 – 5.10%	2020	20,639	17,543	0	281	17,262	493
2002 Subordinate KISC	2002	5.00 – 8.00%	2022	4,550	3,074	0	371	2,703	385
400 Acres Refunding	2005	3.25 – 5.54%	2020	3,931	3,931	0	72	3,859	94
1 <sup>st</sup> Lien 2005A Turbo	2006	4.67%	2008	16,708	16,290	0	12,996	3,294	3,294
1 <sup>st</sup> Lien 2005B Turbo	2006	3.75%	2012	36,281	36,281	0	0	36,281	0
1 <sup>st</sup> Lien 2005C Turbo	2006	3.85%	2013	12,409	12,409	0	0	12,409	0
2 <sup>nd</sup> Lien 2005 Turbo	2006	4.75 – 5.00%	2020	125,298	125,298	0	0	125,298	0
Total sales tax limited obligation bonds				237,312	232,322	0	13,902	218,420	4,463
<u>Notes payable:</u>									
Water supply storage assurance				1,972	232	0	232	0	0
Water supply storage in Federal reservoirs				27,418	17,989	0	439	17,550	563
Landon State Office Building				11,245	563	0	563	0	0
Wildlife & Parks – Tuttle Creek				1,264	764	0	764	0	0
Printing plant				3,857	900	0	172	728	171
Total notes payable				45,756	20,448	0	2,170	18,278	734
Capital leases payable					152,483	5,899	13,016	145,366	11,315
Arbitrage rebate payable					93	5	1	97	0
Claims and judgments					68,033	200,487	206,927	61,593	33,993
Compensated absences					109,214	9,582	0	118,796	57,316
Total Governmental Activities				\$ 3,347,542	\$ 261,262	\$ 306,155	\$ 3,302,649	\$ 188,091	

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/06 Beginning Balance	Additions	Deletions	6/30/07 Ending Balance	Amounts Due In One Year
<b>Business-type Activities</b>									
<u>Revenue bonds payable:</u>									
KDFA Series 1997 I & 2	1998	4.13 - 5.00%	2020	\$ 45,420	\$ 14,670	\$ 0	\$ 1,845	\$ 12,825	\$ 0
KDFA Series 1997 I & II	1997	4.10 - 5.60%	2017	39,260	1,845	0	1,845	0	0
KDFA Series 1998 I & 2	1999	3.88 - 5.25%	2021	39,690	16,265	0	1,540	14,725	1,620
KDFA Series 1998 II	1998	3.75 - 5.25%	2020	80,500	38,240	0	2,725	35,515	2,875
KDFA Series 2000 I & II	2000	4.60 - 6.13%	2022	82,915	18,205	0	2,995	15,210	3,450
KDFA Series 2000 I & 2	2000	4.75 - 5.75%	2023	53,500	23,110	0	1,850	21,260	1,945
KDFA Series 2001 I & II	2002	3.00 - 5.50%	2022	141,045	128,920	0	3,095	125,825	4,835
KDFA Series 2002 I & 2	2002	4.00 - 5.50%	2024	51,805	28,215	0	1,735	26,480	1,800
KDFA Series 2002 II	2003	2.26 - 5.50%	2024	101,575	67,795	0	4,700	63,095	4,875
KDFA Series 2004 I & II	2004	2.00 - 5.25%	2023	50,140	48,140	0	1,000	47,140	1,000
KDFA Series 2004 I & 2	2005	3.00 - 5.00%	2026	176,010	175,630	0	3,170	172,460	5,150
KDFA Series 2005 CW	2005	3.00 - 5.00%	2027	118,860	116,955	0	3,140	113,815	4,820
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	32,690	0	200	32,490	2,000
KDFA Series 2006 TR	2007	4.00 - 5.00%	2027	24,755	0	24,755	0	24,755	1,450
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	31,028	570	3,284	28,314	0
Unamortized deferred refunding difference				0	(20,730)	0	(1,678)	(19,052)	0
Total revenue bonds payable				1,038,165	720,978	25,325	31,446	714,857	35,820
Arbitrage rebate payable					963	626	249	1,340	353
Claims and judgments					186,871	230	6,300	180,801	12,038
Compensated absences					47	12	0	59	49
Other					12,961	769	0	13,730	0
Total Business-type Activities					\$ 921,820	\$ 26,962	\$ 37,995	\$ 910,787	\$ 48,260
<b>Component Units</b>									
<u>Revenue bonds payable:</u>									
Board of Regents Series 1969	1970	3.00 - 7.13%	2009	\$ 1,100	\$ 125	\$ 0	\$ 45	\$ 80	\$ 50
KDFA Series 1989 E	1990	6.00 - 7.25%	2010	1,401	462	27	131	358	128
KDFA Series 1993 L	1994	3.40 - 5.15%	2009	3,975	540	0	45	495	50
KDFA Series 1995 E	1996	4.10 - 5.20%	2007	2,734	25	0	25	0	0
KDFA Series 1995 K	1996	3.75 - 5.40%	2016	3,835	2,560	0	170	2,390	180
KDFA Series 1996 A	1996	4.00 - 5.20%	2008	5,105	330	0	175	155	155
KDFA Series 1996 J	1997	3.85 - 5.40%	2010	5,600	845	0	345	500	255
KDFA Series 1997 C	1997	4.70 - 5.30%	2011	3,255	1,375	0	260	1,115	275
KDFA Series 1997 G-1 & G-2	1998	3.75 - 5.50%	2012	69,126	14,962	49	7,000	8,011	7,000
KDFA Series 1998 B	1998	3.90 - 5.00%	2018	9,320	6,865	0	375	6,490	390
KDFA Series 1998 D	1998	3.70 - 5.05%	2023	4,290	3,470	0	120	3,350	120
KDFA Series 1998 E	1999	3.40 - 4.90%	2024	4,750	4,105	0	125	3,980	130
KDFA Series 1998 H	1998	3.75 - 4.80%	2013	2,320	1,375	0	140	1,235	150
KDFA Series 1998 L	1999	3.80 - 5.00%	2019	5,590	4,225	0	235	3,990	250
KDFA Series 1998 P	1999	3.00 - 4.85%	2019	3,650	2,845	0	140	2,705	145
KDFA Series 1999 A-1 & A-2	1999	3.20 - 5.00%	2012	28,210	16,190	0	3,330	12,860	3,480
KDFA Series 1999 B	1999	3.60 - 5.00%	2019	2,920	2,295	0	120	2,175	125
KDFA Series 1999 C	1999	4.00 - 5.10%	2019	3,085	2,435	0	125	2,310	130
KDFA Series 1999 D	1999	4.00 - 4.75%	2014	11,170	5,610	0	400	5,210	150
KDFA Series 1999 H	2000	3.75 - 5.63%	2020	17,830	4,430	0	650	3,780	690
KDFA Series 1999 N	2000	4.00 - 5.13%	2010	21,645	1,305	0	300	1,005	320
KDFA Series 2000 B	2000	4.70 - 5.90%	2015	5,705	4,095	0	315	3,780	335
KDFA Series 2000 D	2001	4.60 - 5.60%	2015	1,735	1,235	0	95	1,140	100
KDFA Series 2000 V	2001	4.35 - 5.00%	2011	16,370	5,150	0	1,050	4,100	1,025
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	2,330	0	110	2,220	115
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	40,910	0	1,885	39,025	1,975
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	18,840	0	3,050	15,790	3,215
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	3,225	0	475	2,750	485
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	11,640	6,620	0	1,135	5,485	1,575
KDFA Series 2001 S	2002	4.13 - 5.50%	2021	18,955	14,215	0	1,190	13,025	1,215
KDFA Series 2001 U	2002	3.10 - 5.00%	2021	10,295	7,935	0	575	7,360	595
KDFA Series 2001W	2002	3.00 - 5.00%	2022	47,855	42,575	0	1,705	40,870	1,855
KDFA Series 2002 A	2002	3.50 - 5.00%	2022	26,560	22,595	0	1,150	21,445	1,190
KDFA Series 2002 C	2002	3.00 - 5.00%	2027	15,830	14,045	0	630	13,415	650
KDFA Series 2002 H	2003	2.50 - 4.70%	2022	3,765	3,180	0	150	3,030	155
KDFA Series 2002 J-1 & J-2	2003	3.39 - 3.58%	2035	33,355	32,050	0	790	31,260	820
KDFA Series 2002 K	2003	4.30 - 5.00%	2023	5,120	5,120	0	0	5,120	0
KDFA Series 2002 N	2003	3.00 - 5.25%	2023	52,075	47,450	0	1,905	45,545	1,985
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	10,755	0	490	10,265	510
KDFA Series 2003 A-1 & A-2	2003	1.80 - 5.50%	2023	2,610	2,355	0	100	2,255	100
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	68,280	0	1,585	66,695	1,660
KDFA Series 2003 D-1 & D-2	2003	2.00 - 4.70%	2028	6,470	5,875	0	210	5,665	215
KDFA Series 2003 J	2004	2.00 - 5.25%	2025	34,100	31,695	0	1,045	30,650	1,095
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	1,195	0	0	1,195	55
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	44,030	0	1,400	42,630	1,830
KDFA Series 2004 G-1 & G-2	2005	2.50 - 5.13%	2024	19,795	18,125	0	740	17,385	750
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	44,535	0	840	43,695	865
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	65,530	0	6,820	58,710	4,630
KDFA Series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	19,360	0	400	18,960	515
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	8,930	0	0	8,930	0
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,790	7,790	0	0	7,790	285
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	9,790	0	0	9,790	0
KDFA Series 2006 L	2007	4.00 - 4.25%	2026	4,215	0	4,215	0	4,215	150
KDFA Series 2007 A	2007	3.75 - 4.39%	2037	27,750	0	27,750	0	27,750	385
KDFA Series 2007 E	2007	3.75 - 4.30%	2027	6,275	0	6,275	0	6,275	200

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<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	5,116	(375)	707	4,034	0
Unamortized Deferred Refunding Difference				0	(52)	0	(7)	(45)	0
Total Revenue Bonds Payable				<u>936,101</u>	<u>691,253</u>	<u>37,941</u>	<u>44,796</u>	<u>684,398</u>	<u>44,708</u>
<u>Notes payable:</u>									
KSU Grain Science Center				3,875	2,350	0	1,000	1,350	1,350
KSU line of credit – oracle project				2,590	668	0	668	0	0
Component units of university system				<u>182,707</u>	<u>106,765</u>	<u>16,637</u>	<u>4,309</u>	<u>119,093</u>	<u>7,564</u>
Total notes payable				<u>189,172</u>	<u>109,783</u>	<u>16,637</u>	<u>5,977</u>	<u>120,443</u>	<u>8,914</u>
Arbitrage rebate payable					80	43	54	69	0
Capital leases					17,082	6	945	16,143	1,124
Compensated absences					49,655	2,848	0	52,503	44,454
Other					<u>104,556</u>	<u>27,589</u>	<u>4,309</u>	<u>127,836</u>	<u>4,972</u>
Total Component Units					<u>\$ 972,409</u>	<u>\$ 85,064</u>	<u>\$ 56,081</u>	<u>\$ 1,001,392</u>	<u>\$ 104,172</u>

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The following table presents annual debt service requirements for those long-term debts outstanding at June 30, 2007, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Revenue bonds:</u>						
2008	\$ 80,270	\$ 122,562	\$ 35,820	\$ 33,962	\$ 44,708	\$ 30,869
2009	92,915	118,796	38,565	32,356	44,839	28,775
2010	137,205	113,535	40,460	30,663	46,176	26,770
2011	143,370	107,213	42,635	28,737	47,430	24,674
2012	146,685	100,584	43,940	26,745	47,211	22,583
2013-2017	631,625	410,876	228,755	99,973	155,915	89,512
2018-2022	786,425	265,556	198,615	45,702	163,655	50,920
2023-2027	505,500	103,568	76,805	6,304	72,840	20,114
2028-2032	155,150	44,485	0	0	37,920	8,941
2033-2037	66,450	5,532	0	0	19,715	1,874
Unamortized premium	39,798	0	28,314	0	4,034	0
Unamortized deferred refunding	(45,294)	0	(19,052)	0	(45)	0
Totals	<u>2,740,099</u>	<u>1,392,707</u>	<u>714,857</u>	<u>304,442</u>	<u>684,398</u>	<u>305,032</u>
<u>Sales tax limited obligation bonds:</u>						
2008	4,463	9,904	0	0	0	0
2009	1,389	9,853	0	0	0	0
2010	1,608	9,842	0	0	0	0
2011	13,069	9,585	0	0	0	0
2012	14,125	9,098	0	0	0	0
2013-2017	83,312	36,348	0	0	0	0
2018-2022	91,989	13,946	0	0	0	0
2023-2027	6,235	4,635	0	0	0	0
2028	2,230	3,328	0	0	0	0
Totals	<u>218,420</u>	<u>106,539</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Notes payable:</u>						
2008	734	856	0	0	8,914	5,021
2009	704	627	0	0	8,198	4,619
2010	736	608	0	0	6,707	4,240
2011	755	590	0	0	6,653	3,911
2012	584	570	0	0	6,551	3,594
2013-2017	3,244	2,527	0	0	47,359	14,865
2018-2022	3,859	1,912	0	0	33,771	7,968
2023-2027	3,854	1,186	0	0	2,290	1,388
2028-2032	2,630	498	0	0	0	0
2033-2037	725	115	0	0	0	0
2038-2042	453	31	0	0	0	0
Totals	<u>18,278</u>	<u>9,520</u>	<u>0</u>	<u>0</u>	<u>120,443</u>	<u>45,606</u>
Capital leases payable	145,366	71,868	0	0	16,143	4,973
Long-term debt without scheduled debt service:						
Arbitrage rebate payable	97	0	1,340	0	69	0
Claims and judgments	61,593	0	180,801	0	0	0
Compensated absences	118,796	0	59	0	52,503	0
Other	0	0	13,730	0	127,836	0
Total long-term obligations	<u>\$ 3,302,649</u>	<u>\$ 1,580,634</u>	<u>\$ 910,787</u>	<u>\$ 304,442</u>	<u>\$ 1,001,392</u>	<u>\$ 355,611</u>

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### III. Detailed Notes On All Funds

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#### *General Obligation Bonds*

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

#### *Revenue Bonds*

The **Kansas Development Finance Authority** (KDFA) was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. Please reference Note J. above for KDFA revenue bonds.

The **Kansas Department of Transportation** (KDOT) has issued 14 outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Comprehensive Transportation Program. The State's Comprehensive Transportation Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 1999 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees.

The coupon interest rate on outstanding bonds varies from 2.38 percent to 5.5 percent. In addition, the Series 2000 B and C Bonds and Series 2002 B, C and D Bonds were issued as variable rate instruments whose rates change on a daily, weekly, or 28-day basis depending on their respective individual modes. During the year, interest rates ranged from 3.06 percent to 4.03 percent on the daily adjustable bonds, from 3.15 percent to 4.10 percent on the weekly adjustable bonds and 3.30 percent to 3.95 percent on the 28-day adjustable bonds. The 2000 B and C Bonds and 2002 B, C, D and 2004 C Bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2007, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2007, for tendered bonds, the Series 2000 B and C Bonds, 2002 B, C and D Bonds and 2004 C Bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

The **Board of Regents of the State of Kansas** (Regents) has issued one outstanding series of Revenue Bonds to construct a dormitory at Emporia State University. Principal and interest payments on the bonds are paid from revenues collected from the operation of the dormitory.

#### *Sales Tax Limited Obligation Bonds*

In March 1998, the Unified Government of Wyandotte County/Kansas City, KS established the Prairie Delaware Redevelopment District. The District was created for development of a major tourism area, including the Kansas International Speedway. In connection with various projects in the District, the Unified Government has issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the Unified Government and the State of Kansas have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the Unified Government and the State of Kansas, based on each entity's respective share of sales taxes generated within the District. The State of Kansas' proportional share is approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue has been recorded with the State of Kansas' long-term debt. This proportional share may change in the future if the sales taxes assessed by the local or state governments are modified. Further details regarding STAR bonds may be found in the chart at the beginning of Note III, Section J.

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### III. Detailed Notes On All Funds

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#### *Special Obligation and Private Activity Bonds*

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special, limited obligations of KDFA, neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2007, balance sheet. KDFA's special obligation bonds at June 30, 2007, total \$2.1 billion.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2007, balance sheet. KDFA's private activity bonds at June 30, 2007, total \$1.0 billion.

#### *Notes Payable*

PMIB is authorized as directed by statute to loan funds from the State treasury to state agencies for various capital projects including the purchase of the State's printing plant and the renovation and purchase of the Landon state office building. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section J, Long-term Obligations - Primary Government, Governmental Funds and Section I, Short-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 23 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2007, for portions of the storage designated as "future use" storage.

#### *Lease Commitments*

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

#### *Operating Leases*

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2007, are as follows (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
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### III. Detailed Notes On All Funds

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<u>Fiscal Year</u>	
2008	\$ 9,242
2009	9,172
2010	8,189
2011	7,739
2012	7,153
2013-2017	24,241
2018-2023	12,821
Total future minimum lease payments	<u>\$ 78,557</u>
 Rent expenditures/expenses for operating leases for the year ended June 30, 2007	 <u>\$ 10,611</u>

#### Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the statement of net assets at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2007 (expressed in thousands):

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 11,322	\$ 6,579
2009	10,000	6,096
2010	9,208	5,643
2011	8,703	5,221
2012	8,319	4,813
2013-2017	37,331	22,141
2018-2022	23,445	12,361
2023-2027	18,650	7,108
2028-2032	18,388	1,906
Total	<u>\$ 145,366</u>	<u>\$ 71,868</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2007, include the following (expressed in thousands):

	<u>Governmental Activities</u>
Land (non-depreciable)	\$ 9,926
Buildings	91,474
Equipment	65,407
Less: Accumulated depreciation	(32,203)
Total	<u>\$ 134,604</u>

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### **III. Detailed Notes On All Funds**

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#### **Master Lease Purchase Program**

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

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### III. Detailed Notes On All Funds

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#### *Defeasance of Debt*

##### **Primary Government**

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2007, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/06 Beginning Balance	Current Year Defeased	Payments	6/30/07 Ending Balance
<b>Governmental Activities</b>				
KDOT Series 1993 A	\$ 17,930	\$ 0	\$ 6,100	\$ 11,830
KDOT Series 1994	44,395	0	8,045	36,350
KDOT Series 1994 A	6,715	0	0	6,715
KDOT Series 1998	58,190	0	0	58,190
KDOT Series 1999	310,920	0	6,930	303,990
KDOT Series 2000 A	150,000	0	0	150,000
KDFA Series 2003 J	5,790	0	0	5,790
KDFA Series 2004 A	5,810	0	0	5,810
Total governmental activities	<u>\$ 599,750</u>	<u>\$ 0</u>	<u>\$ 21,075</u>	<u>\$ 578,675</u>
<b>Business-type Activities</b>				
KDFA Series 1997 I & 2	\$ 21,175	\$ 0	\$ 21,175	\$ 0
KDFA Series 1997 I	2,680	0	2,680	0
KDFA Series 1997 II	26,515	0	26,515	0
KDFA Series 1998 I & 2	16,110	0	0	16,110
KDFA Series 1998 II	28,670	0	0	28,670
KDFA Series 2000 I	1,965	0	0	1,965
KDFA Series 2000 II (Nov.)	54,945	0	0	54,945
KDFA Series 2000 I & 2	24,635	0	0	24,635
KDFA Series 2001 II	2,790	0	0	2,790
KDFA Series 2002 II	26,845	0	0	26,845
KDFA Series 2002 I & 2	20,315	0	0	20,315
Total business-type activities	<u>\$ 226,645</u>	<u>\$ 0</u>	<u>\$ 50,370</u>	<u>\$ 176,275</u>

No bonds were defeased in the current fiscal year.

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### III. Detailed Notes On All Funds

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#### Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2007, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/06 Beginning Balance	Current Year Defeased	Payments	6/30/07 Ending Balance
FHSU Series 1968	\$ 40	\$ 0	\$ 20	\$ 20
KDFA Series 1997 G-1 & G-2	27,500	0	0	27,500
KDFA Series 1999 D	1,920	0	290	1,630
KDFA Series 1999 H	10,030	0	0	10,030
KDFA Series 1999 N	19,240	0	0	19,240
KDFA Series 2000 T	1,540	0	0	1,540
KDFA Series 2000 V	7,215	0	0	7,215
KDFA Series 2001 N	1,240	0	310	930
KDFA Series 2001 W	1,610	0	0	1,610
Total component units	<u>\$ 70,335</u>	<u>\$ 0</u>	<u>\$ 620</u>	<u>\$ 69,715</u>

No bonds were defeased in the current fiscal year.

#### Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$97,000 for Governmental Activities, \$1,3 million for Business-type Activities, and \$69,000 for Component Units.

### III. Detailed Notes On All Funds

#### Derivative Instruments

##### *Interest rate swap*

#### **KDFA Series 2002 J-2**

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in August 2002, the Kansas Development Finance Authority entered into an interest rate swap in connection with its 2002 J-2 lease revenue bonds. The intention of the swap was to effectively change the variable interest rate of the bonds to a synthetic fixed rate of 3.39 percent.

*Terms.* The lease revenue bonds mature in December 2034 and the related swap agreement matures in December 2009. The swap's notional amount of \$22.6 million is equal to the par amount of the variable rate bonds. The swap agreement was executed at the same time the bonds were issued. Under the terms of the swap agreement, the KDFA pays the counterparty a fixed rate of 3.39 percent and receives a variable payment computed on the Bond Market Association Municipal Swap Index™ (BMA).

*Fair Value.* Because interest rates declined subsequent to the date of execution, the swap had a negative indicative value of \$136,450 as of June 30, 2007.

#### **Kansas Department of Transportation**

*Objective of the swaps.* In order to protect against the potential of rising interest rates, the Department of Transportation entered into four separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Department would have paid to issue fixed-rate debt.

*Terms, fair values, and credit risk.* The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2007, are included below. The Department of Transportation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable (expressed in thousands).

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
KDOT Series 2002 D	\$ 86,875	12/17/02	5.240	67% of USD-LIBOR	\$ (5,289)	03/01/12	Aa3/AA-
KDOT Series 2002 B & C*	200,000	10/23/02	3.164	67% of USD-LIBOR	6,814	09/01/19	Aa3/AA-
KDOT Series 2002 B & C*	120,005	10/23/02	3.164	67% of USD-LIBOR	4,088	09/01/19	Aa1/AA-
KDOT Series 2003 C	150,275	12/03/03	3.359	71% of USD-LIBOR**	4,209	09/01/15	Aa3/AA-
KDOT Series 2004 B & C***	72,000	11/23/04	3.571	63.5% of USD-LIBOR + .29%	1,638	09/01/24	Aa3/AA-
KDOT Series 2004 B & C	75,000	11/23/04	3.571	63.329% of 10 Year LIBOR	2,781	09/01/24	Aa3/AA-
	<u>\$ 704,155</u>				<u>\$ 14,241</u>		

\* - two counterparties

\*\* - or the lessor of the Actual Bond Rate until September 1, 2010

\*\*\* - reduces from \$147,000 on July 1, 2007.

*KDOT Series 2002 D Swap* - In connection with the issuance of \$86.9 million of variable-rate bonds to refund outstanding KDOT Series 1993A Bonds, on August 27, 2002 the Department of Transportation competitively bid the sale of an option on a floating-to-fixed 67 percent of LIBOR interest rate swap. Merrill Lynch provided the winning bid with a swaption premium amount of \$11.9 million to be paid to the Department in two installments of \$6.5 million on March 1, 2006 and \$5.4 million on March 1, 2007. The swaption allowed the Department to effect a synthetic forward refunding of the Bonds to lock in savings based on then current market conditions. Under U.S. tax law, the Bonds were not eligible for a traditional current refunding until December 1, 2002. The terms of the option were structured to mirror the terms on the optional redemption feature on the Series 1993A Bonds. The swaption generated expected PV savings of \$10.4 million (11.92 percent of the Bonds' par amount). Merrill Lynch has since exercised the option resulting in a floating-to-fixed 67 percent of LIBOR interest rate swap.

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### III. Detailed Notes On All Funds

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*KDOT Series 2002 B & C Swap* - In connection with the issuance of \$320 million of variable-rate KDOT Series 2002 B & C Bonds, on October 3, 2002 the Department of Transportation competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200 million of notional principal and Salomon Smith Barney was awarded \$120 million of notional principal. The executed transaction consisted of a \$320 million 17-year amortizing interest rate swap under which the Department pays Goldman/Salomon a fixed rate of 3.2 percent and receives 67 percent of LIBOR. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

*KDOT Series 2003C Swap* - In connection with the issuance of \$150.3 million of variable-rate KDOT Series 2003 C Bonds, on November 20, 2003 the Department Transportation competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150.3 million 12-year amortizing floating-to-fixed interest rate swap whereby the Department pays the counterparty a fixed rate of 3.36 percent and receives the lesser of the Actual Bond Rate and 71 percent of one month LIBOR until September 1, 2010, and 71 percent of LIBOR thereafter. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

*KDOT Series 2004 B and C Swaps* - In connection with the issuance of \$147 million of variable-rate Series 2004 B and C Bonds, on November 12, 2004 the Department of Transportation competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147 million 20-year amortizing floating-to-fixed interest rate swap whereby the Department pays the counterparty a fixed rate of 3.57 percent and receives 63.5 percent of LIBOR plus 29 basis points. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur “negative carry” (cost of borrowing exceeds investment rate). The Department of Transportation determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, the Department amended the floating index from 63.5 percent plus 29 basis points to 62.33 percent of the ten year LIBOR CMS rate on \$75 million of the existing \$147 million swap.

*Fair Value.* These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

*Credit risk.* As of June 30, 2007, the Department of Transportation has no credit risk exposure on the swap associated with the KDOT Series 2002 D Bonds because the swap had negative fair value, meaning the counterparties are exposed to the Department in the amount of the derivatives’ fair value. However, should interest rates change and the fair value of the swap become positive, the Department would be exposed to credit risk.

On the rest of the swap transactions, the Department has credit risk exposure to Goldman Sachs Capital Markets, L.P., Citigroup Financial Products Inc. and Merrill Lynch Capital Services on the swaps associated with the KDOT Series 2002 B and C, KDOT Series 2003 C, and KDOT Series 2004 B and C Bonds. This is because the transactions all have positive fair market values, meaning the Department is exposed to the counterparties in the amount of the derivatives’ fair values. However, should interest rates change and the fair values of the swaps become negative, the Department would not be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty’s credit rating fall below the applicable thresholds.

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### III. Detailed Notes On All Funds

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*Basis risk.* Basis risk is the risk that the interest rate paid by the Department of Transportation on the underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The Department bears basis risk on each of its swaps. The swaps have basis risk since the Department receives a percentage of LIBOR to offset the actual variable bond rate the Department pays on its bonds. The Department is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Department pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

*Termination risk.* The Department of Transportation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the Department would be liable to the counterparty for a payment equal to the swap's fair value.